

**RED OAK
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004

TABLE OF CONTENTS

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-12
Basic Financial Statements:	<u>Exhibit</u>
Government-Wide Financial Statements:	
Statement of Net Assets	A 13
Statement of Activities	B 14-15
Governmental Fund Financial Statements:	
Balance Sheet	C 16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 17
Statement of Revenues, Expenditures and Changes in Fund Balances	E 18-19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 20
Proprietary Fund Financial Statements:	
Combining Statement of Net Assets	G 21
Combining Statement of Revenues, Expenses and Changes in Net Assets	H 22
Combining Statement of Cash Flows	I 23
Fiduciary Funds Financial Statements:	
Statement of Fiduciary Net Assets	J 24
Statement of Change in Fiduciary Net Assets	K 25
Notes to Financial Statements	26-33
Required Supplemental Information:	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	34
Notes to Required Supplementary Information - Budgetary Reporting	35
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	1 36
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2 37
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3 38-39
Fiduciary Funds:	
Combining Statement of Fiduciary Net Assets	4 40
Combining Statement of Changes in Net Assets	5 41
Comparison of Taxes and Intergovernmental Revenue	6 42
Schedule of Expenditures of Federal Awards	7 43
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	44-45
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance	46-47
Schedule of Findings and Questioned Costs	48-51

RED OAK COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2003 Election)

Bryant Amos	President	2003
Charla Schmid	Vice President	2005
Rod DeVries		2004
Gale Haufle		2003
Amy Thomas		2005

(After September, 2003 Election)

Charla Schmid	President	2005
Rod DeVries	Vice President	2004
Bryant Amos		2006
Gale Haufle		2006
Amy Thomas		2005

SCHOOL OFFICIALS

Dr. Kevin Brummer	Superintendent
Sue Wagaman	District Secretary/ Treasurer

Independent Auditor's Report

To the Board of Education of the
Red Oak Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Red Oak Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Red Oak Community School District as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 11 to the general purpose financial statements, during the year ended June 30, 2004, Red Oak Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Statement No. 37 Basic Financial Statements and Management's Discussion and Analysis; Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated September 28, 2004 on our consideration of Red Oak Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 36 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Red Oak Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the general purpose financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

September 28, 2004

RED OAK COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Red Oak Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$9,305,640 in fiscal year 2003 to \$9,426,452 in fiscal year 2004, while General Fund expenditures increased from \$9,391,263 in fiscal year 2003 to \$9,787,132 in fiscal year 2004.
- The increase in General Fund revenues was primarily due to increased Federal grant activity. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits, as well as, increased grant activity
- The District had a decrease of 21% in General Fund balance in fiscal 2004, however, a large part of that was due to a mid-year cut in state funding. The District was forced to use reserves to cover these revenue cuts.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of Statement of Net Assets and a Statement of Activities. These provide information about the activities of Red Oak Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Red Oak Community School District operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Red Oak Community School District acts solely as agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Red Oak Community School District

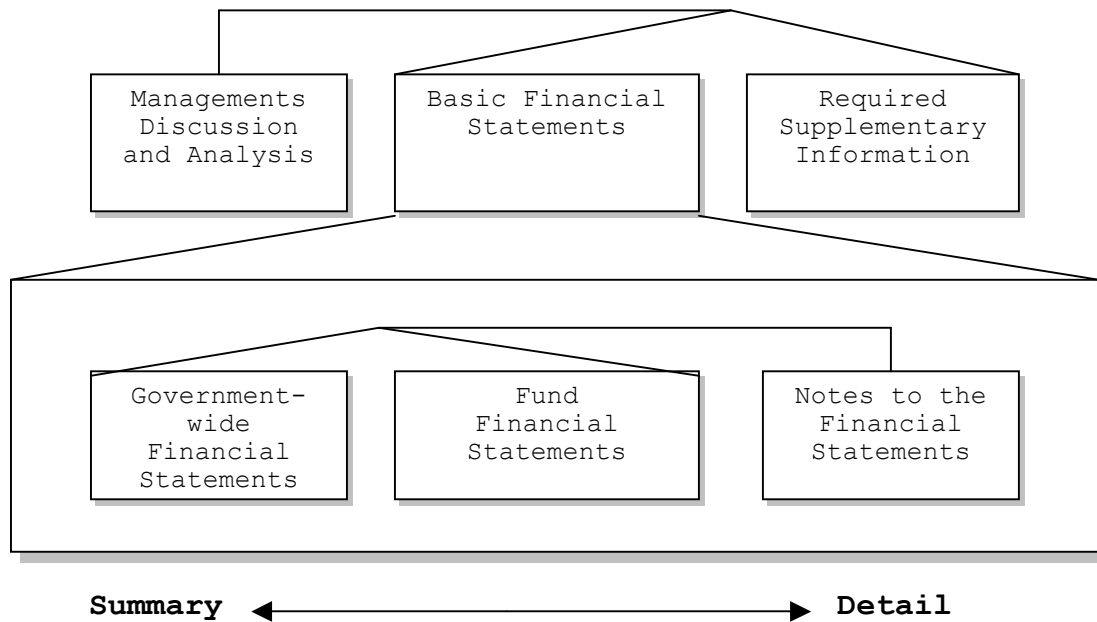


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows	. Statement of fiduciary net assets . Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the Government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's program.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Fund.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.
- 3) *Fiduciary Funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as a scholarship fund. The District accounts for outside donations for specific purpose in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	2004	2003	2004	2003	2004	2003	2003-04
	\$	\$	\$	\$	\$	\$	
Current assets	7,611	8,135	176	125	7,787	8,260	-5.73%
Capital assets	11,283	10,945	13	15	11,296	10,960	3.07%
Total assets	18,894	19,080	189	140	19,083	19,220	-0.71%
Current liabilities	5,169	4,564	14	31	5,183	4,595	12.80%
Non-current liabilities	9,240	9,603	-	-	9,240	9,603	-3.78%
Total liabilities	14,409	14,167	14	31	14,423	14,198	1.58%
Net Assets							
Invested in capital assets, net of related debt	2,133	1,395	13	15	2,146	1,410	52.20%
Restricted	933	1,702	-	-	933	1,702	-45.18%
Unrestricted	1,419	1,816	162	94	1,581	1,910	-17.23%
Total net assets	4,485	4,913	175	109	4,660	5,022	-7.21%

The District's combined net assets decreased by over 7%, or approximately \$362,000 over the prior year. The largest portion of the District's net assets is invested in capital assets.

Unrestricted net assets - the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased approximately \$330,000 or 17%. This decrease in unrestricted net assets was a result of state funding decreases and increased payroll costs.

Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	116	223	339
Operating grants, contributions and restricted interest	1,793	235	2,028
General revenues:			
Property tax	3,381	-	3,381
Income surtaxes	172	-	172
Local option sales tax	543	-	543
Unrestricted state grants	4,596	-	4,596
Unrestricted investment earnings	46	-	46
Other	42	-	42
Total revenues	10,689	458	11,147
Program expenses:			
Governmental activities:			
Instruction	6,861	-	6,861
Support Services	3,421	-	3,421
Non-instructional programs	10	392	402
Other expenses	793	-	793
Total expenses	11,085	392	11,477
Change in net assets	(396)	66	(330)

Property tax and unrestricted state grants account for 72% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 90% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$10,683,345 and expenses were \$11,785,597.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	6,861	5,362
Support Services	3,421	3,395
Non-instructional programs	10	10
Other expenses	<u>793</u>	<u>409</u>
		<u>5</u>
Totals	<u>11,085</u>	<u>9,181</u>

- The cost financed by users of the District's programs was \$115,501.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,490,130.
- The net cost of governmental activities was financed with \$3,380,998 in property and other taxes and \$4,595,986 in unrestricted state grants.

Business-Type Activities

Revenues for business type activities were \$457,660 and expenses were \$391,692. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for food service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District decreased its labor and food costs while maintaining revenue at the same level. This resulted in an increase in fund balance of over \$66,000.

INDIVIDUAL FUND ANALYSIS

As previously noted, Red Oak Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$4,484,567, a eight percent decrease over last year's ending fund balances of \$4,880,318. A large part of the decrease was due to a mid-year reduction in state funding.

Governmental Fund Highlights

- The District's declining General Fund financial position is the result of several factors. The District has carefully monitored spending to avoid decreases in fund balances, however, uncertain funding from state and federal governments has made this difficult. The preservation of the General Fund balance is especially important in light of the State's decision to remove the budget guarantee.
- The Capital Projects Fund has decreased in balance due to using existing funds to complete various projects throughout the District.

Proprietary Fund Highlights

The School Nutrition Fund balance increased approximately \$66,000 during the fiscal year ending June 30, 2004. This was a result of reductions in payroll and food costs.

BUDGETARY HIGHLIGHTS

The District's receipts were \$378,779 lower than budgeted receipts, a variance of 3%. This variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$11,295,991, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 1% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expenses for the year was \$355,095.

The original cost of the District's capital assets was \$15,852,307. Governmental funds account for \$15,839,278, with the remainder of \$28,990 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building progress category. The District spent \$572,447 on buildings and sites during the year.

Figure A-6
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
	\$	\$	\$	\$	\$	\$	
Land	179	179	-	-	179	179	0.00%
Buildings	10,281	9,960	-	-	10,281	9,960	3.22%
Furniture and equipment	823	806	13	15	836	821	1.83%
Totals	11,283	10,945	13	15	11,296	10,960	3.07%

Long-term Debt

The District has outstanding debt of \$4,150,000 for a new elementary school and additions to other buildings. The bonds will be paid off in the year 2020.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future.

- The District receives local option sales tax money from Montgomery County. These funds are being used for debt reduction resulting in property tax relief for the taxpayers. The District also uses proceeds from the voted portion of the Physical Plant and Equipment Levy for debt reductions.

- For the 2003-04 school year the state cut the District's budget by 2.5%. This was an across the board cut, effecting Phase I & II and Teacher Compensation as well as other areas. This will force the District to use some of the cash on hand to maintain programs at current levels. Cuts made during the fiscal year negatively impact the District's balances and forced the district to make budget reductions.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", "GASB 34", reduction in state aid for juvenile homes and the unfunded PSEO mandate to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kevin Brummer, Superintendent, Red Oak Community School District, 904 Broad Street, Red Oak, Iowa 51566.

Basic Financial Statements

RED OAK COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	3,345,044	170,183	3,515,227
Receivables:			
Property tax:			
Current year	41,083	-	41,083
Succeeding year	3,710,149	-	3,710,149
Income surtaxes	275,000	-	275,000
Due from other governments	123,718	-	123,718
Other receivables	115,781	-	115,781
Inventories	-	6,284	6,284
Capital assets, net of accumulated depreciation (note 3)	11,282,962	13,029	11,295,991
Total assets	18,893,737	189,496	19,083,233
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	127,067	-	127,067
Accrued salary and benefits	1,024,420	14,675	1,039,095
Accrued interest payable	32,772	-	32,772
Deferred revenue:			
Succeeding year property tax	3,710,149	-	3,710,149
Income surtaxes	275,000	-	275,000
Long term liabilities:			
Portion due within one year:			
Bonds payable	420,000	-	420,000
Early retirement	89,762	-	89,762
Portion due after one year:			
Bonds payable	8,730,000	-	8,730,000
Total liabilities	14,409,170	14,675	14,423,845
Net assets:			
Invested in capital assets, net of related debt	2,132,962	13,029	2,145,991
Restricted for:			
Physical plant and equipment levy	494,033	-	494,033
Debt service	461	-	461
Capital projects	438,613	-	438,613
Unrestricted, designated for special purposes	966,270	-	966,270
Unrestricted	452,228	161,792	614,020
Total net assets	4,484,567	174,821	4,659,388

See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
<u>Functions/Programs</u>						
Governmental activities:						
Instruction:						
Regular instruction	4,374,656	93,975	500,262	(3,780,419)	-	(3,780,419)
Special instruction	1,709,414	10,148	612,363	(1,086,903)	-	(1,086,903)
Other instruction	776,637	-	281,759	(494,878)	-	(494,878)
	<u>6,860,707</u>	<u>104,123</u>	<u>1,394,384</u>	<u>(5,362,200)</u>	<u>-</u>	<u>(5,362,200)</u>
Support services:						
Student services	371,916	-	5,807	(366,109)	-	(366,109)
Instructional staff services	510,280	-	-	(510,280)	-	(510,280)
Administration services	1,052,107	-	478	(1,051,629)	-	(1,051,629)
Operation and maintenance of plant services	1,216,521	-	8,025	(1,208,496)	-	(1,208,496)
Transportation services	269,888	11,378	-	(258,510)	-	(258,510)
	<u>3,420,712</u>	<u>11,378</u>	<u>14,310</u>	<u>(3,395,024)</u>	<u>-</u>	<u>(3,395,024)</u>
Non-instructional programs						
Food service operations	20	-	-	(20)	-	(20)
Community service and education	10,205	-	-	(10,205)	-	(10,205)
	<u>10,225</u>	<u>-</u>	<u>-</u>	<u>(10,225)</u>	<u>-</u>	<u>(10,225)</u>
Other expenditures:						
Facilities acquisition and construction	14,572	-	7,745	(6,827)	-	(6,827)
Long-term debt interest	401,760	-	2	(401,758)	-	(401,758)
Long-term debt services	300	-	-	(300)	-	(300)
AEA flowthrough	376,524	-	376,524	-	-	-
	<u>793,156</u>	<u>-</u>	<u>384,271</u>	<u>(408,885)</u>	<u>-</u>	<u>(408,885)</u>
Total governmental activities	11,084,800	115,501	1,792,965	(9,176,334)	-	(9,176,334)

RED OAK COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues					
		Charges for	Operating Grants, Contributions and Restricted	Governmental	Business-Type	Total
	Expenses	Service	Interest	Activities	Activities	
	\$	\$	\$	\$	\$	\$
Business-Type activities:						
Non-instructional programs						
Nutrition services	375,180	209,534	234,296	-	68,650	68,650
Enterprise	16,512	13,509	321	-	(2,682)	(2,682)
Total	11,476,492	338,544	2,027,582	(9,176,334)	65,968	(9,110,366)
General revenues:						
Property tax levied for:						
General purposes				3,086,744	-	3,086,744
Management fund				130,697	-	130,697
Capital outlay				163,557	-	163,557
Income surtaxes				172,069	-	172,069
Local option sales tax				543,347	-	543,347
Unrestricted state grants				4,595,896	-	4,595,896
Unrestricted investment earnings				46,145	-	46,145
Other				42,128	-	42,128
Total general revenue				8,780,583	-	8,780,583
Change in net assets				(395,751)	65,968	(329,783)
Net assets beginning of year				4,880,318	108,853	4,989,171
Net assets end of year				4,484,567	174,821	4,659,388

See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2004

	General	Debt Service	Capital Projects	Nonmajor	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	2,275,743	461	387,668	681,172	3,345,044
Receivables:					
Property tax:					
Current year	37,537	-	-	3,546	41,083
Succeeding year	3,223,610	100,000	-	386,539	3,710,149
Income surtax - succeeding year	-	-	-	275,000	275,000
Due from other governments	37,232	-	86,486	-	123,718
Other receivables	115,781	-	-	-	115,781
Total assets	<u>5,689,903</u>	<u>100,461</u>	<u>474,154</u>	<u>1,346,257</u>	<u>7,610,775</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	91,493	-	35,541	33	127,067
Accrued salary and benefits	1,024,420	-	-	-	1,024,420
Deferred revenue:					
Succeeding year property tax	3,223,610	100,000	-	386,539	3,710,149
Income surtax - succeeding year	-	-	-	275,000	275,000
Total liabilities	<u>4,339,523</u>	<u>100,000</u>	<u>35,541</u>	<u>661,572</u>	<u>5,136,636</u>
Fund balances:					
Reserved for debt service	-	461	-	-	461
Reserved for capital projects	-	-	438,613	-	438,613
Unreserved, designated for special purposes	966,270	-	-	-	966,270
Unreserved, undesignated	384,110	-	-	684,685	1,068,795
Total fund equity and other credits	<u>1,350,380</u>	<u>461</u>	<u>438,613</u>	<u>684,685</u>	<u>2,474,139</u>
Total liabilities and fund balances	<u>5,689,903</u>	<u>100,461</u>	<u>474,154</u>	<u>1,346,257</u>	<u>7,610,775</u>

See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (Exhibit C)		\$ 2,474,139
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		11,282,962
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(32,772)
Long-term liabilities, including bonds payable and capital loan notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
General obligation bonds	(9,150,000)	
Early retirement	<u>(89,762)</u>	<u>(9,239,762)</u>
Net assets of governmental activities (Exhibit A)		<u>\$ 4,484,567</u>

See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	3,086,744	-	543,347	466,323	4,096,414
Tuition	79,707	-	-	-	79,707
Other	174,188	2	7,745	239,263	421,198
State sources	5,471,276	-	-	213	5,471,489
Federal sources	614,537	-	-	-	614,537
Total revenues	<u>9,426,452</u>	<u>2</u>	<u>551,092</u>	<u>705,799</u>	<u>10,683,345</u>
Expenditures:					
Instruction:					
Regular instruction	4,297,310	-	-	54,120	4,351,430
Special instruction	1,709,414	-	-	-	1,709,414
Other instruction	519,922	-	-	216,491	736,413
	<u>6,526,646</u>	<u>-</u>	<u>-</u>	<u>270,611</u>	<u>6,797,257</u>
Support services:					
Student services	360,943	-	-	-	360,943
Instructional staff services	510,280	-	-	-	510,280
Administration services	943,748	-	-	108,359	1,052,107
Operation and maintenance of plant services	834,679	-	-	128,950	963,629
Transportation services	224,087	-	-	34,809	258,896
	<u>2,873,737</u>	<u>-</u>	<u>-</u>	<u>272,118</u>	<u>3,145,855</u>
Non-instructional programs					
Food service operations	20	-	-	-	20
Community service and education	10,205	-	-	-	10,205
	<u>10,225</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,225</u>
Other expenditures:					
Facilities acquisition and construction	-	-	638,604	14,572	653,176
Long-term debt:					
Principal	-	400,000	-	-	400,000
Interest	-	402,260	-	-	402,260
Services	-	300	-	-	300
AEA flowthrough	376,524	-	-	-	376,524
	<u>376,524</u>	<u>802,560</u>	<u>638,604</u>	<u>14,572</u>	<u>1,832,260</u>
Total expenditures	<u>9,787,132</u>	<u>802,560</u>	<u>638,604</u>	<u>557,301</u>	<u>11,785,597</u>

RED OAK COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
	\$	\$	\$	\$	\$
Excess (deficiency) of revenues over (under) expenditures	(360,680)	(802,558)	(87,512)	148,498	(1,102,252)
Other financing sources (uses):					
Compensation for loss of capital assets	5,704	-	-		5,704
Operating transfers in	-	803,000	-	125,000	928,000
Operating transfers out	-	-	(745,000)	(183,000)	(928,000)
	<u>5,704</u>	<u>803,000</u>	<u>(745,000)</u>	<u>(58,000)</u>	<u>5,704</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(354,976)	442	(832,512)	90,498	(1,096,548)
Fund balances beginning of year, as restated (note 11)	<u>1,705,356</u>	<u>19</u>	<u>1,271,125</u>	<u>594,187</u>	<u>3,570,687</u>
Fund balances end of year	<u><u>1,350,380</u></u>	<u><u>461</u></u>	<u><u>438,613</u></u>	<u><u>684,685</u></u>	<u><u>2,474,139</u></u>

See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - total governmental funds (Exhibit E) \$ (1,096,548)

**Amounts reported for governmental activities in the
statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 690,189	
Depreciation expense	<u>(352,679)</u>	337,510

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		400,000
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Early retirement expenses reported in the Statement of Activities do not require the use current financial resources and, therefore, are not reported as expenditures in the governmental funds.		(37,213)
--	--	----------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		<u>500</u>
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Change in net assets of governmental activities (Exhibit B) \$ (395,751)

RED OAK COMMUNITY SCHOOL DISTRICT

Combining Statement of Net Assets

Proprietary Funds

Year ended June 30, 2004

	School Nutrition	Enterprise	Total
	\$	\$	\$
Assets			
Cash and pooled investments	158,287	11,896	170,183
Inventories	6,284	-	6,284
Capital assets, net of accumulated depreciation	13,029	-	13,029
Total assets	<u>177,600</u>	<u>11,896</u>	<u>189,496</u>
Liabilities			
Accrued salary and benefits	14,675	-	14,675
Total liabilities	<u>14,675</u>	<u>-</u>	<u>14,675</u>
Net assets			
Invested in capital assets, net of related debt	13,029	-	13,029
Unrestricted	149,896	11,896	161,792
Total net assets	<u>162,925</u>	<u>11,896</u>	<u>174,821</u>

See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Year ended June 30, 2004

	School Nutrition	Enterprise	Total
	\$	\$	\$
Operating revenue:			
Local sources:			
Charges for services	<u>209,534</u>	<u>13,509</u>	<u>223,043</u>
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	118,867	-	118,867
Benefits	75,813	-	75,813
Services	11,409	-	11,409
Supplies	164,477	-	164,477
Property	2,198	-	2,198
Depreciation	<u>2,416</u>	<u>-</u>	<u>2,416</u>
	<u>375,180</u>	<u>-</u>	<u>375,180</u>
Other enterprise operations:			
Services	<u>-</u>	<u>16,512</u>	<u>16,512</u>
Total operating expenses	<u>375,180</u>	<u>16,512</u>	<u>391,692</u>
Operating profit (loss)	<u>(165,646)</u>	<u>(3,003)</u>	<u>(168,649)</u>
Non-operating revenues:			
Interest on investments	2,308	321	2,629
State sources	6,761	-	6,761
Federal sources	<u>225,227</u>	<u>-</u>	<u>225,227</u>
	<u>234,296</u>	<u>321</u>	<u>234,617</u>
Change in net assets	68,650	(2,682)	65,968
Net assets beginning of year	<u>94,275</u>	<u>14,578</u>	<u>108,853</u>
Net assets end of year	<u><u>162,925</u></u>	<u><u>11,896</u></u>	<u><u>174,821</u></u>

See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2004

	School Nutrition	Community Education	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of services	209,534	13,509	223,043
Cash payments to employees for services	(211,153)	-	(211,153)
Cash payments to suppliers for goods or services	(153,720)	(16,512)	(170,232)
Net cash provided by (used in) operating activities	(155,339)	(3,003)	(158,342)
Cash flows from non-capital financing activities:			
State grants received	6,761	-	6,761
Federal grants received	205,603	-	205,603
Net cash provided by non-capital financing activities	212,364	-	212,364
Cash flows from investing activities:			
Interest on investments	2,308	321	2,629
Net increase (decrease) in cash and cash equivalents	59,333	(2,682)	56,651
Cash and cash equivalents beginning of year	98,954	14,578	113,532
Cash and cash equivalents end of year	158,287	11,896	170,183
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	(165,646)	(3,003)	(168,649)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation	2,416	-	2,416
Commodities used	19,624	-	19,624
Decrease in inventory	4,740	-	4,740
(Decrease) in accrued payroll and benefits	(16,473)	-	(16,473)
	(155,339)	(3,003)	(158,342)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash	158,287	11,896	170,183

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received federal commodities valued at \$19,624.

See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2004

	Private Purpose Trusts
	<u>\$</u>
Assets	
Cash	<u>71,199</u>
Total assets	<u>71,199</u>
Net Assets	
Reserved for scholarships	<u><u>71,199</u></u>

See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2004

	Private Purpose Trusts
	<u>\$</u>
Additions:	
Local sources:	
Miscellaneous	17,700
Deductions:	
Support services:	
Scholarships awarded	<u>1,000</u>
Change in net assets	16,700
Net assets beginning of year	<u>54,499</u>
Net assets end of year	<u><u>71,199</u></u>

RED OAK COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Red Oak Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Red Oak, Iowa, and agricultural territory in Montgomery, Page and Pottawattamie Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, Red Oak Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities.

The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Red Oak Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Montgomery County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The statements of net assets and the statement of activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operation fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds are the School Nutrition and Enterprise Funds. The School Nutrition Fund is used to account for the food service operations of the District. The Enterprise Fund is used to account for a student operated business.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus". The Government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Property, furniture and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which is payable in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term obligations - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2004 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public fund.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$488,759 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>179,360</u>	<u>-</u>	<u>-</u>	<u>179,360</u>
Capital assets being depreciated:				
Buildings	12,763,578	572,447	-	13,336,025
Furniture and Equipment	<u>2,206,151</u>	<u>117,742</u>	<u>-</u>	<u>2,323,893</u>
Total capital assets being depreciated	<u>14,969,729</u>	<u>690,189</u>	<u>-</u>	<u>15,659,918</u>
Less accumulated depreciation for:				
Buildings	2,803,906	251,454	-	3,055,360
Furniture and Equipment	<u>1,399,731</u>	<u>101,225</u>	<u>-</u>	<u>1,500,956</u>
Total accumulated depreciation	<u>4,203,637</u>	<u>352,679</u>	<u>-</u>	<u>4,556,316</u>
Total capital assets being depreciated, net	<u>10,766,092</u>	<u>337,510</u>	<u>-</u>	<u>11,103,602</u>
Governmental activities, capital assets, net	<u>10,945,452</u>	<u>337,510</u>	<u>-</u>	<u>11,282,962</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities				
Furniture and Equipment	28,990	-	-	28,990
Less accumulated depreciation	13,545	2,416	-	15,961
Business type activities capital assets, net	<u>15,445</u>	<u>(2,416)</u>	<u>-</u>	<u>13,029</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Regular instruction	2,789
Other education	40,224
Student support	10,973
Transportation	45,801
Plant operation and maintenance	<u>252,892</u>
	<u>352,679</u>

Business type activities:

Food service operations	<u>2,416</u>
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(4) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2004 is as follows:

	General Obligation Bonds
Balance beginning of year	\$9,550,000
Additions	-
Reductions	<u>400,000</u>
Balance end of year	<u>\$9,150,000</u>

(5) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$320,150, \$311,927, and \$303,758 respectively, equal to the required contributions for each year.

(6) Risk Management

Red Oak Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$376,524 for year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Contingencies

The District is involved in litigation regarding a personal injury accident. District legal counsel has advised as that there is no probable outcome at the current time, thus no liability has been recognized on the financial statements.

(9) Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u> %	<u>Interest</u> \$	<u>Principal</u> \$	<u>Total</u> \$
2005	3.00	390,110	420,000	810,110
2006	3.05-3.25	377,381	435,000	812,381
2007	3.35-3.55	363,267	445,000	808,267
2008	3.65-3.80	347,398	465,000	812,398
2009	3.80-4.00	329,805	475,000	804,805
2010	4.00-4.10	310,840	495,000	805,840
2011	4.10-4.20	290,463	515,000	805,463
2012	4.20-4.30	268,645	545,000	813,645
2013	4.30-4.40	245,130	565,000	810,130
2014	4.40-4.50	220,190	590,000	810,190
2015	4.50-4.60	193,448	615,000	808,448
2016	4.60-4.70	164,965	645,000	809,965
2017	4.70-4.80	134,458	675,000	809,458
2018	4.80-4.85	101,865	715,000	816,865
2019	4.85-4.90	66,668	750,000	816,668
2020	4.90-4.90	29,400	800,000	829,400
Total		<u>3,834,033</u>	<u>9,150,000</u>	<u>12,984,033</u>

(10) Bond Defeasance

During the fiscal year ending June 30, 2002, the District refinanced its existing bonded indebtedness. Savings are estimated to be approximately \$350,000. The original issue is not callable until May 1, 2008. Funds from refinancing that are being held by Bankers Trust Company, are deemed to be sufficient to retire the old debt. \$8,675,000 of bonds are considered to be defeased at June 30, 2004.

(11) Accounting Change

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus were implemented during the fiscal year ending June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include District-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Governmental Accounting Standards Board (GASB) Statement Number 38, Certain Financial Statement Note Disclosure, requires certain disclosures be made in the notes to the financial statements concurrent with the implementation of Statement Number 34.

The District-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

	Fund				Total
	General	Debt Service	Capital Projects	Nonmajor Special Revenues	
Net assets, June 30, 2003, as previously reported	\$1,705,356	19	1,271,125	541,638	3,518,138
GASB Interpretation 6 adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,549</u>	<u>52,549</u>
Net assets, July 1, 2003, as restated for governmental funds	<u>\$1,705,356</u>	<u>19</u>	<u>1,271,125</u>	<u>594,187</u>	3,570,687
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$4,203,637					10,945,452
Accrued interest payable					(33,272)
Long-Term Liabilities:					
General obligation bonds				(9,550,000)	
Early retirement payable				<u>(52,549)</u>	<u>(9,602,549)</u>
Net assets, July 1, 2003, as restated					<u>\$ 4,880,318</u>

Required Supplementary Information

RED OAK COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	4,597,319	225,672	4,822,991	4,926,951	4,926,951	(103,960)
State sources	5,471,489	6,761	5,478,250	6,032,833	6,032,833	(554,583)
Federal sources	614,537	225,227	839,764	560,000	560,000	279,764
Total receipts	10,683,345	457,660	11,141,005	11,519,784	11,519,784	(378,779)
Disbursements:						
Instruction	6,797,257	-	6,797,257	7,068,915	7,068,915	271,658
Support services	3,145,855	-	3,145,855	2,965,950	3,200,000	54,145
Non-instructional programs	10,225	391,692	401,917	504,315	504,315	102,398
Other expenditures	1,832,260	-	1,832,260	2,306,137	2,306,137	473,877
Total disbursements	11,785,597	391,692	12,177,289	12,845,317	13,079,367	902,078
Excess (deficiency) of receipts over (under) disbursements	(1,102,252)	65,968	(1,036,284)	(1,325,533)	(1,559,583)	523,299
Other financing sources (uses)	5,704	-	5,704	-	-	5,704
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,096,548)	65,968	(1,030,580)	(1,325,533)	(1,559,583)	529,003
Balance beginning of year	3,570,687	108,853	3,679,540	3,262,925	3,262,925	416,615
Balance end of year	2,474,139	174,821	2,648,960	1,937,392	1,703,342	945,618

See accompanying independent auditor's report.

RED OAK COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the budget and appropriations lapse at year-end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

The District did not exceed the amounts budgeted in any of the four functions.

Other Supplementary Information

RED OAK COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2004

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	63,884	125,212	492,076	681,172
Property tax receivable:				
Current year	1,589	-	1,957	3,546
Succeeding year	250,000	-	136,539	386,539
Succeeding year income surtax	-	-	275,000	275,000
Total assets	<u>315,473</u>	<u>125,212</u>	<u>905,572</u>	<u>1,346,257</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	-	33	-	33
Deferred revenue:				
Succeeding year property tax	250,000	-	136,539	386,539
Succeeding year income surtax	-	-	275,000	275,000
	<u>250,000</u>	<u>33</u>	<u>411,539</u>	<u>661,572</u>
Fund equity:				
Unreserved fund balances	<u>65,473</u>	<u>125,179</u>	<u>494,033</u>	<u>684,685</u>
Total liabilities and fund equity	<u>315,473</u>	<u>125,212</u>	<u>905,572</u>	<u>1,346,257</u>

See accompanying independent auditor's report.

RED OAK COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2004

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	130,697	-	335,626	466,323
Other	382	230,973	7,908	239,263
State sources	96	-	117	213
Total revenues	<u>131,175</u>	<u>230,973</u>	<u>343,651</u>	<u>705,799</u>
Expenditures:				
Instruction:				
Regular instruction	52,550	-	1,570	54,120
Co-curricular instruction	-	216,491	-	216,491
Support services:				
Administration services	108,359	-	-	108,359
Plant operation and maintenance	-	-	128,950	128,950
Student transportation	-	-	34,809	34,809
Other expenditures:				
Facilities acquisition and construction	-	-	14,572	14,572
Total expenditures	<u>160,909</u>	<u>216,491</u>	<u>179,901</u>	<u>557,301</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(29,734)</u>	<u>14,482</u>	<u>163,750</u>	<u>148,498</u>
Other financing sources (uses):				
Operating transfers in	-	-	125,000	125,000
Operating transfers out	-	-	(183,000)	(183,000)
Total operating financing (uses)	<u>-</u>	<u>-</u>	<u>(58,000)</u>	<u>(58,000)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(29,734)</u>	<u>14,482</u>	<u>105,750</u>	<u>90,498</u>
Fund balances beginning of year, as restated (note 11)	<u>95,207</u>	<u>110,697</u>	<u>388,283</u>	<u>594,187</u>
Fund balances end of year	<u><u>65,473</u></u>	<u><u>125,179</u></u>	<u><u>494,033</u></u>	<u><u>684,685</u></u>

See accompanying independent auditor's report.

BECK COUNTY S&L DIST

Closing Statement of Fiduciary Assets

Fiduciary Funds - Private Purpose Trusts

June 30, 2004

	Joell G.							Total
	Adams	Stanley	Klopp	Bon	Kimison	Reese	Cassidy	
	Scholarship	Scholarship	Trust	Scholarship	Scholarship	Scholarship	Scholarship	
	\$	\$	\$	\$	\$	\$	\$	\$
Assets								
Cash	4	1029	2,63	2022	7,826	8,077	2,064	7,19
Total Assets	4	1029	2,63	2022	7,826	8,077	2,064	7,19
Liabilities								
Reserve for scholarships	4	1029	2,63	2022	7,826	8,077	2,064	7,19

RED OAK COMMUNITY SCHOOL DISTRICT

Combining Statement of Changes in Fiduciary Net Assets

Fiduciary Funds - Private Purpose Trusts

Year ended June 30, 2004

	Anderson Scholarship	Stanley Plank Scholarship	Klopping Trust	Bloom Scholarship	Lowell G. and Blanche Kinnison Scholarship	Leland Peterson Scholarship	Class of 38 Scholarship	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues:								
Local sources:								
Interest on investments	-	207	345	163	76	-	82	873
Contributions	-	-	-	-	7,750	8,077	1,000	16,827
	-	207	345	163	7,826	8,077	1,082	17,700
Expenditures:								
Instruction:								
Regular instruction:								
Other	-	-	-	-	-	-	1,000	1,000
Excess (Deficiency) of revenues over (under) expenditures	-	207	345	163	7,826	8,077	82	16,700
Balance beginning of year	42	10,062	22,294	20,119	-	-	1,982	54,499
Balance end of year	42	10,269	22,639	20,282	7,826	8,077	2,064	71,199

See accompanying independent auditor's report.

RED OAK COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

	Years ended June 30,			
	2003	2002	2001	2000
Local sources:				
General	3,086,744	3,108,239	2,717,682	2,700,038
Special revenue	466,323	535,854	741,679	174,064
Debt service	-	-	55,782	410,454
Capital projects	543,347	525,945	503,482	508,145
	<u>4,096,414</u>	<u>4,170,038</u>	<u>4,018,625</u>	<u>3,792,701</u>
State sources:				
General	5,471,276	5,527,129	5,568,637	5,477,826
Special revenue	213	-	-	-
Capital projects	-	-	923,130	-
School nutrition	6,761	5,985	5,803	6,069
	<u>5,478,250</u>	<u>5,533,114</u>	<u>6,497,570</u>	<u>5,483,895</u>
Federal sources:				
General	614,537	391,145	295,068	262,950
School nutrition	225,227	231,146	202,365	201,467
	<u>839,764</u>	<u>622,291</u>	<u>497,433</u>	<u>464,417</u>
Total	<u>10,414,428</u>	<u>10,325,443</u>	<u>11,013,628</u>	<u>9,741,013</u>

See accompanying independent auditor's report.

RED OAK COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<u>Grantor / Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u> \$
Indirect:			
Department of Agriculture:			
Iowa Department of Education:			
Food Distribution	10.550	FY04	19,624
Special Milk Program	10.556	FY04	47
School Nutrition Cluster Programs:			
National School Breakfast Program	10.553	FY04	41,431
National School Lunch Program	10.555	FY04	164,126
			205,557
Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	5463-G-04 5463-GC-04	199,528 23,050
			222,578
Safe and Drug-Free Schools and Communities - States Grants	84.186	FY04	5,807
Enhancing Education Through Technology	84.318	FY04	6,393
Innovative Education Program Strategies (Title V) Program	84.298	FY04	10,118
Improving Teacher Quality - Grants to States	84.367	FY04	55,600
Grants for Assessments and Related Activities	84.369	FY04	7,626
Reading First - State Grants	84.357	FY04	176,888
Vocational Education - Basic Grants to States	84.048	FY04	41,976
Green Valley Area Education Agency:			
Special Education Grants to States (IDEA Part B)	84.027	FY04	56,144
Special Education Grants to States (Success 4)	84.027	FY04	1,086
Total			809,444

See accompanying independent auditor's report.

RED OAK COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

	Years ended June 30,			
	2003	2002	2001	2000
Local sources:				
General	3,086,744	3,108,239	2,717,682	2,700,038
Special revenue	466,323	535,854	741,679	174,064
Debt service	-	-	55,782	410,454
Capital projects	543,347	525,945	503,482	508,145
	<u>4,096,414</u>	<u>4,170,038</u>	<u>4,018,625</u>	<u>3,792,701</u>
State sources:				
General	5,471,276	5,527,129	5,568,637	5,477,826
Special revenue	213	-	-	-
Capital projects	-	-	923,130	-
School nutrition	6,761	5,985	5,803	6,069
	<u>5,478,250</u>	<u>5,533,114</u>	<u>6,497,570</u>	<u>5,483,895</u>
Federal sources:				
General	614,537	391,145	295,068	262,950
School nutrition	225,227	231,146	202,365	201,467
	<u>839,764</u>	<u>622,291</u>	<u>497,433</u>	<u>464,417</u>
Total	<u><u>10,414,428</u></u>	<u><u>10,325,443</u></u>	<u><u>11,013,628</u></u>	<u><u>9,741,013</u></u>

See accompanying independent auditor's report.

RED OAK COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u> \$
Indirect:			
Department of Agriculture:			
Iowa Department of Education:			
Food Distribution	10.550	FY04	19,624
Special Milk Program	10.556	FY04	<u>47</u>
School Nutrition Cluster Programs:			
National School Breakfast Program	10.553	FY04	41,431
National School Lunch Program	10.555	FY04	<u>164,126</u>
			<u>205,557</u>
Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	5463-G-04 5463-GC-04	199,528 <u>23,050</u>
			<u>222,578</u>
Safe and Drug-Free Schools and Communities - States Grants	84.186	FY04	5,807
Enhancing Education Through Technology	84.318	FY04	6,393
Innovative Education Program Strategies (Title V) Program	84.298	FY04	10,118
Improving Teacher Quality - Grants to States	84.367	FY04	55,600
Grants for Assessments and Related Activities	84.369	FY04	7,626
Reading First - State Grants	84.357	FY04	176,888
Vocational Education - Basic Grants to States	84.048	FY04	41,976
Green Valley Area Education Agency:			
Special Education Grants to States (IDEA Part B)	84.027	FY04	56,144
Special Education Grants to States (Success 4)	84.027	FY04	<u>1,086</u>
Total			<u><u>809,444</u></u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Red Oak Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basis financial statements.

See accompanying independent auditor's report.

**Independent Auditor's Report on Compliance and
on Internal Control over Financial Reporting**

To the Board of Education of the
Red Oak Community School District:

We have audited the financial statements of the Red Oak Community School District, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 28, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Red Oak Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved, except 04-IV-E.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Red Oak Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Red Oak Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-II-A is a material weakness. Prior year reportable conditions have all been resolved except for item 04-II-A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Red Oak Community School District and other parties to whom Red Oak Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Red Oak Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

September 28, 2004

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance**

To the Board of Education of the
Red Oak Community School District:

Compliance

We have audited the compliance of Red Oak Community School District, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Red Oak Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Red Oak Community School District's management. Our responsibility is to express an opinion on Red Oak Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Red Oak Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Red Oak Community School District's compliance with those requirements.

In our opinion Red Oak Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Red Oak Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Red Oak Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Red Oak Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item 04-III-A of the accompanying Schedule of Findings and Questions Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-III-A is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Red Oak Community School District and other parties to whom Red Oak Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

BRUCE D. FRINK
Certified Public Accountant

September 28, 2004

RED OAK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance that is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 - Title I Grants to Local Educational AgenciesSchool Nutrition Clustered Programs:
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.553 - School Breakfast Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Red Oak Community School District did not qualify as a low-risk auditee.

RED OAK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

04-II-A SEGREGATION OF DUTIES

Comment - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties that are incompatible. The District has done a good job of segregating duties among the present staff, however, the District Secretary continues to have the ability to override the present controls and circumvent the internal control system.

Recommendation - We realize the job description, as defined by the Code of Iowa, of the District Secretary makes the segregation of duties even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and the administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will continue to review procedures to obtain the best controls possible.

Conclusion - Response accepted.

RED OAK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part III: Findings For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number: 84.010 Title I Grants to Local Educational Agencies

Grant Numbers: 5463-G-04, 5463-GC-04

Federal Award Year: 2004

US Department of Education

Passed through Iowa Department of Education

CFDA Number: 10.553 School Breakfast Program

10.555 National School Lunch Program

Federal Award Year: 2004

US Department of Agriculture

Passed through Iowa Department of Education

04-III-A Segregation of Duties over Federal Funds - One important aspect of internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties that are incompatible. The District has done a good job of segregating duties among the present staff, however, the District Secretary continues to have the ability to override the present controls and circumvent the internal control system.

Recommendation - We realize the job description, as defined by the Code of Iowa, of the District Secretary makes the segregation of duties even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and the administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will continue to review procedures to obtain the best controls possible.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

04-IV-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

04-IV-B Certified Budget - Expenditures for the year ended June 30, 2004, did not exceed the amounts budgeted.

04-IV-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-IV-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

RED OAK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part IV: Other Findings Related to Required Statutory Reporting:
(continued):

04-IV-E Business Transactions - Business transactions between the District and District officials or employees were noted as follows:

<u>Name, Title and Business Connection</u>	<u>Amount</u>	<u>Description</u>
Schmid Construction Spouse of Board Member	\$25,475	Construction
Amy Thomas Board member	\$1,306	substitute teacher

The transactions with Ms Thomas do not appear to constitute a conflict of interest as they do not exceed the \$2,500 limit prescribed by the Code of Iowa.

The transactions with Schmid Construction do not appear to represent a conflict of interest as they were in connection with an open bidding process.

Recommendation - We recommend that the District review these types of expenditures annually.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

04-IV-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

04-IV-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

04-IV-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

04-IV-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

04-IV-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

